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Testimony to the Energy & Technology Committee
March 15, 2012

RE: SB 415 AAC the Operations of the Department of
Energy & Environmental Protection, the Establishment of a Commercial Property Assessed
Clean Energy Program, Water Conservation and
the Operations of the Clean Energy Finance and Investment Authority

Connecticut Water Company is a private water company that serves nearly 90,000 customers or approximately 300,000 people in 55 towns in Connecticut. We have 200 employees dedicated to providing our customers and the communities we serve with quality water and service. We have long been stewards of the environment and strive to ensure that water resources are protected and water utility operations are sustainable.

Connecticut Water Company would like to thank the Energy and Technology Committee for including Sections 58 to 62 in SB 415 and urge your support of these important measures that pertain to water conservation. These provisions to promote water conservation will complement and further the state's goals to reduce energy demands, improve and protect natural resources and the environment, and enhance streamflows.

The potential energy savings by achieving water conservation are real. Simply put, water is a heavy product and considerable energy is required to pump it to the heights of tanks and hills to serve customers and provide fire protection. Still more energy is needed for treatment and disposal. The Alliance for Water Efficiency reports that nationally 13% of the electric load is related to the production, distribution, customer use and consumer disposal of water. There is a clear water-energy nexus and reducing water demands through conservation will have obvious benefits to the state in achieving its energy goals. Formalizing conservation policies and ensuring that PURA ratemaking practices support those measures is essential to further those goals.

The proposed regulatory tools in SB 415 can streamline the regulatory process, mitigate the need and frequency of larger general rate cases, reduce agency staff and resources required for general rate case proceedings, delay or avoid the need to invest capital to develop new water supplies, and ultimately serve the interests of the public and the customers.

The legislation reflects a number of items identified in a 2011 OLR Report, *Legislative Options to Promote Water Conservation (2011-R-0021)* and a report on "Water Rates and Incentives to Promote Conservation" recently approved by the Water Planning Council (WPC). The WPC, established pursuant to PA 01-177, includes top officials of the Office of Policy and Management, Department of Public Health, Public Utility Regulatory Authority (PURA), and Department of Energy and Environmental Protection who work to "address issues involving the water companies, water resources and state policies regarding the future of the state's drinking water supply." The WPC studies and makes recommendations regarding a broad range of water utility and water resource programs and policies taking into account environmental, economic and public health considerations.

The primary recommendation in the report on water rates and conservation recently approved by the WPC is to:

“Ensure that state policies and regulations promote and support

- *water and energy conservation;*
- *water system sustainability and efficiency;*

by providing for the recovery of costs for all public water systems, including authorizing appropriate rates and recovery mechanisms.”

The legislation in SB 415 is consistent with that recommendation in that it encourages adoption of rate structures that would send appropriate price signals to end users and offer programs for consumer conservation education and retrofits to promote water conservation.

At the same time, it has measures to ensure that the utility will receive sufficient revenues to meet the PURA approved revenue requirements and recover authorized operating costs in order to maintain a level of investment necessary to sustain the system as demands are reduced when conservation is achieved.

Absent such ratemaking tools, the traditional approach to revenue stability would rely on increases to the basic service charge. However, such approaches have the negative effect of penalizing lower volume users such as senior citizens and are not the appropriate long term strategy to promote conservation.

The bill would require that PURA authorize rates for water companies that promote conservation that may include:

- (1) rate designs that promote conservation including but not limited to inclining block rates, seasonal, peak period or drought rates,
- (2) implementation of measures to provide more timely price signals for consumers,
- (3) multiyear rate plans,
- (4) measures to reduce system water losses, and
- (5) funds for consumer programs to promote conservation through education and incentives or rebates for retrofits with water efficient fixtures and appliances.

The bill further directs the Department to authorize a water conservation and sustainability adjustment (WCSA) for a water company that has not recovered the allowed revenues approved by the Department; and has not exceeded their allowed rate of return. The bill details the process by which the WCSA would be authorized and includes a number of safeguards for the consumer, including that the company may not exceed their allowed rate of return and that a credit would be issued to customers if the company's revenues exceeded the revenue requirement.

While it may be within PURA's existing authority to implement such types of ratemaking now, their decisions, at least in the water sector, have not reflected such measures to promote conservation. Both Connecticut Water and Aquarion Water proposed conservation adjustment mechanisms in their last general rate cases, and both were denied. Connecticut Water also requested approval of funds to offer retrofits for schools, other public buildings and hardship customers and that was denied. Torrington Water had proposed use of a regression analysis rather than simple historic averages to more accurately reflect projected customer demand, given the declines in usage, and that was rejected. As individual applications were reviewed, decisions relied on past practices and do

not necessarily reflect the broader state and Department policies for water and energy conservation. That disconnect does not serve the state's utilities, customer or the environment long term.

Current ratemaking practices create a significant disincentive for water utilities to promote conservation. This is because except for the basic service charges, revenues are directly tied to customer consumption. There are growing trends of declining use, which are likely the result of a combination of various factors including changes in building codes and plumbing efficiency standards, availability of more efficient appliances, conscious efforts by consumers to adopt a conservation ethic, as well as population, household size, economic and demographic trends. Whatever the cause, the reality is that with traditional ratemaking and the assumptions now made during a rate case in Connecticut, there is a significant gap between operating costs and the revenues that are realized, making the utility financially vulnerable as soon as the case is complete.

By using a historic test year to determine operating costs and project demands, and relying on historic multiyear averages to project customer growth and water usage, it is almost guaranteed that neither the projected demands or revenues will be realized. As such, the utility is economically harmed if demand is reduced and there is a real disincentive for the water utility to further promote conservation as it would only widen the revenue gap. If the utility had the assurance that the authorized revenues would be realized they could be more aggressive in rate designs that promote conservation, such as inclining block rates. Absent that protection, however, there is too much risk for the utility to embrace such measures.

Connecticut Company launched a small pilot program in February 2010 to determine how much water customers can conserve with the installation of water-saving washing machines and toilets. The company purchased low flow toilet fixtures and front load washers and arranged for installation in two single family residential and a multiple unit building in the Naugatuck Housing Authority. The results showed weekly usage drop by 70 gallons per day or 21% at one property, and as much as 289 gallons per day or 30% at another residence. These real, measurable savings demonstrate how effective such changes can be in saving water. While it would be powerful for water companies to share that type of information and encourage other customers to do the same, current ratemaking discourages that.

The charts that follow the testimony demonstrate the impact of traditional ratemaking practices and conservation on our Company's revenues, showing a decline in revenues that is simply not sustainable. Had the projected demands/estimated revenues appropriately considered declining usage as the Company proposed, the numbers would have been much closer. With such a gap, however, the utility is driven to apply for a general rate case sooner and for a larger amount. Further, the request seems larger than necessary as it reflects costs that were approved in prior decisions, but not actually recovered in rates.

Rate cases are problematic for everyone – the company, regulators, state and local officials, and customers – yet utilities must have rates that provide sufficient revenues to meet operating costs and attract capital to invest in infrastructure. Rate cases are costly proceedings – with a small water company easily incurring \$150,000 of costs in the process and larger companies faced with \$600,000 to \$800,000 for a case - expenses which are all passed on to the customers in rates. Regulatory practices that streamline the process and/or reduce the frequency of rate cases should be encouraged.

Finally, the bill would expand the eligibility for Water Infrastructure and Conservation Adjustment (WICA) charges authorized under Section 16-262v of the CGS. WICA is a ratemaking tool authorized by the legislature in 2007 through the leadership of the Energy & Technology Committee that allows for interim rate adjustments for PURA regulated companies for eligible projects that improve system reliability, water quality and reduce water loss through main breaks and leaks.

Since that legislation was adopted, the WICA program has been highly successful and achieved the intended goals of accelerating infrastructure replacement and creating jobs with minimal rate impacts on customers. Since 2007, Connecticut Water has invested over \$34 Million, replaced nearly 33 miles of main, and created more than 150 construction and related jobs through the WICA program. With the most recent additions completed this year, the cumulative total of the WICA charge is 4.15% - with virtually no customer complaints about the surcharge.

To encourage the additional conservation related investments without compromising continued investments in replacement of aging infrastructure, SB 415 would expand the cap for WICA to 10% between rate cases. For a typical water utility customer, that would equate to less than \$5 per month at the maximum level. The definition of WICA eligible projects would be expanded to include additional items that are key to achieving the state's energy and environmental policies including the (1) purchase of energy efficient equipment or investments in renewable energy supplies; and (2) capital improvements necessary to achieve compliance with streamflow regulations.

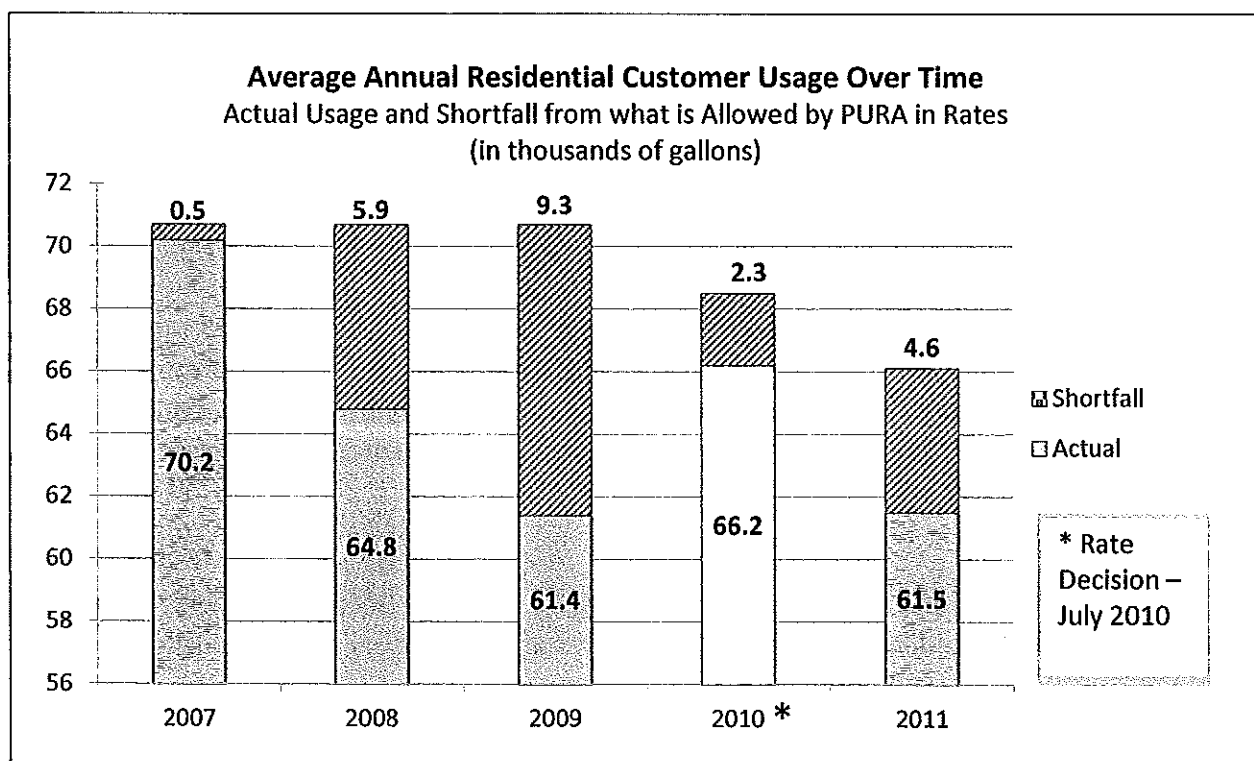
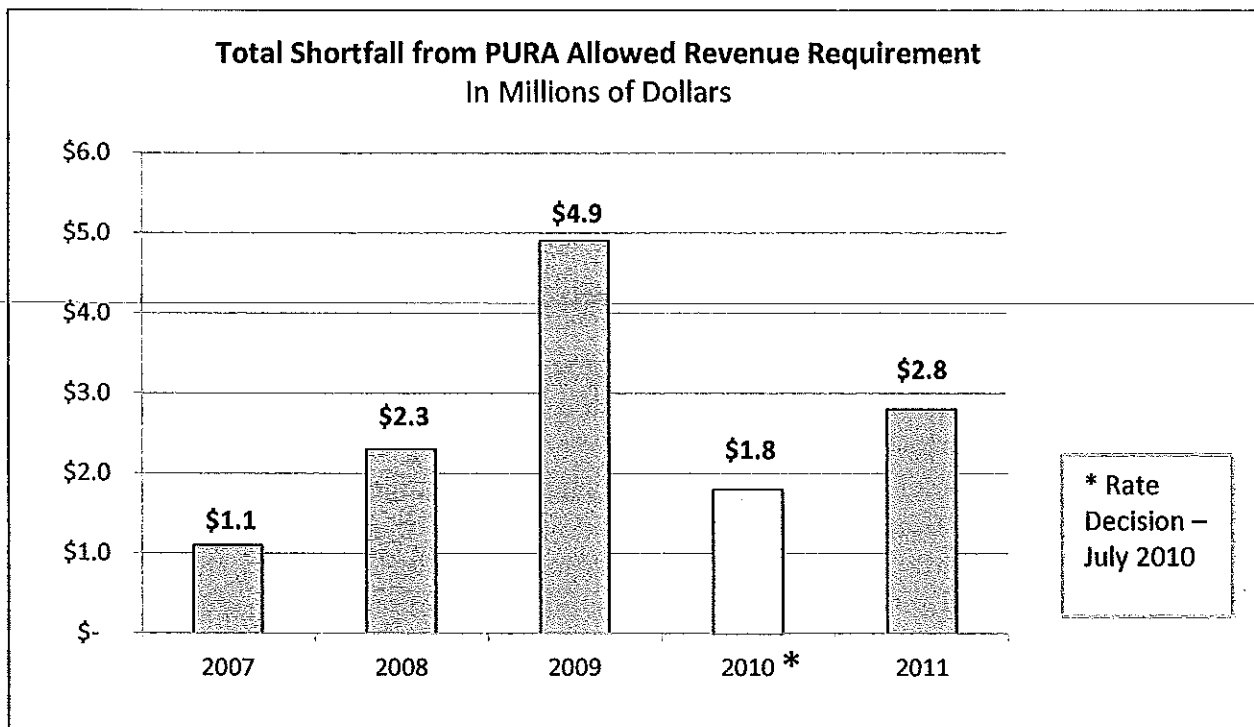
The Department of Energy and Environmental Protection introduced the bill and numerous environmental advocates stand in support of this legislation as it is evident that ratemaking tools that promote ongoing reductions in demand through conservation will ultimately reduce the demands on the state's water resources and enhance streamflows and support the streamflow regulations adopted in 2010. By reducing the demands it can provide the short term benefit of additional releases into streams, but in some case may delay or avoid the need to develop additional sources of supply to meet customers' needs in the future.

We have included for your consideration some suggested substitute language that corrects a statutory reference and slightly modifies/clarifies the administrative process for authorizing the charge. These changes would make the process for the WCSA charge more closely mirror the existing process for the WICA charge, simplifying the process for the companies and PURA staff and minimizing potential confusion for customers aligning the timing of both adjustments in the same billing period.

This bill provides a tremendous opportunity to formally establish policies for ratemaking in water that will ensure that individual rate cases decisions will be consistent with important state objectives to reduce energy demands, improve and protect natural resources and the environment, and enhance streamflows. At the same time, it will streamline the regulatory process, mitigate the need and frequency of larger general rate cases, reduce agency staff and resources required for general rate case proceedings, and ultimately serve the interests of the public and the customers.

Thank you for raising these important concepts and urge the Committee's support. If you have questions on our testimony please contact Maureen Westbrook at 1-800-428-3985 x3055 or mwestbrook@ctwater.com.

Impacts of Existing Ratemaking Practices and Conservation on Water Utility Revenues
Connecticut Water Company actual revenues compared to revenues approved by PURA



Suggested substitute language for SB 415

For clarification and consistency with WICA process pursuant to Section 16-262w

1. The statutory reference at the end of **Section 59, Subsection (a)** is incorrect and should be revised to be consistent with the language in Section 19-262w for WICA to read as follows:

Section 59, Subsection (a) (2) exceed such company's allowed rate of return by more than one hundred basis points for any calendar year. ~~pursuant to subsection (g) of said section 16-19.~~

2. **Section 59, Subsection (b)** Any water company seeking a water conservation and sustainability adjustment shall indicate in such company's rate application filed pursuant to section 16-19 of the general statutes that such company seeks such adjustment. Any water conservation and sustainability adjustment authorized pursuant to this section shall be (1) calculated as a percentage based on the difference between the actual revenues the company collected during the period subject to the adjustment and revenues allowed in the last general rate case of such company, (2) applied as a charge or credit to the bills of such company's customers for a twelve-month period following authorization by the authority pursuant to this section, (3) applied to all customer classes except public fire accounts, (4) applied on bills issued to customers on and after ~~February~~ April first of the calendar year in which such adjustment is authorized, and (5) in effect at the rate authorized each year until new base rates are approved by the authority in such company's next general rate case. The amount of any adjustment authorized pursuant to this section shall be reset to zero as of the effective date of any new base rate approved for such company pursuant to said section 16-19 and shall be reset to zero if the company exceeds the allowable rate of return by more than one hundred basis points for any calendar year. The company shall include in new base rates any remaining amounts due for any surcharge or credit authorized pursuant to this section for the calendar year in which such new rates are approved. For the purposes of this section, the authorized revenues for any such water company shall not be adjusted for customer growth except that such revenues shall be adjusted for any customers acquired by such company through an acquisition approved by the authority pursuant to section 16-262n of the general statutes.
3. The timing for the administrative proceeding specified in Section 59, Subsection (c) should be completed not later than thirty days after the filing of an application by a water company for such adjustment charge or credit rather than linked to the application for the general rate application.